

Message Text

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44

ACTION NEA-12

INFO OCT-01 AF-10 EUR-25 ADP-00 CIAE-00 DODE-00 PM-09 H-02

INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15

USIA-12 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 CEA-02 STR-08

FS-01 ABF-01 RSR-01 /189 W
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R 151135 Z MAY 73

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 6657

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L KUWAIT 1634

DEPT PASS TREASURY

PARIS FOR RFC

E. O. 11652: GDS

TAGS: EFIN KU US

SUBJECT: DOLLAR WEAKENS IN KUWAIT

SUMMARY: LOCAL MONEY MARKET, REFLECTING SITUATION IN
EUROPE, SEEING DOLLAR WEAKEN IN LAST FEW DAYS, ESPECIALLY
DURING LAST TWENTY- FOUR HOURS, AS POUND STERLING,
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GOLD AND CONTINENTAL CURRENCIES APPRECIATE. WATERGATE AFFAIR, ON TOP OF LINGERING CONCERN OVER DOLLAR FOLLOWING RECENT DEVALUATION, CAUSING MOVEMENTS FROM DOLLAR HOLDINGS TO OTHER ASSETS. AT THIS TIME ESTIMATED \$40 MILLION IN SHIFTS FROM DOLLAR HAS TAKEN PLACE BY PRIVATE KUWAITIS, ACCORDING COMMERCIAL BANKING SOURCES. END SUMMARY.

1. CONTINUING NEWS CONCERNING WATERGATE AFFAIR BEGINNING HAVE REPERCUSSIONS ON LOCAL MONEY MARKET WHICH REFLECTS SIMILAR DEVELOPMENTS IN EUROPE. WATERGATE AFFAIR HAS EXACERBATED WHAT ONE LOCAL BANKER REFERRED TO AS " CRISIS OF CONFIDENCE" IN U. S. CURRENT CONCERN IS OVER ABILITY USG CONDUCT NORMAL POLITICAL AND ADMINISTRATIVE WORK. THIS, HOWEVER, COMES AFTER SHOCK OF RECENT DEVALUATION WHICH CALLED INTO QUESTION HEALTH OF US ECONOMY. THUS, ON TOP OF EXISTING CONCERN OVER US ECONOMIC MATTERS, LATEST DOMESTIC DEVELOPMENTS HAVE ADDED WEIGHT OF CONCERN OVER POLITICAL SITUATION. THIS MORE THAN DOLLAR CAN STAND AT THIS TIME.

2. DURING PAST DAY OR SO DOLLAR HAS WEAKENED RELATIVE TO KUWAITI DINAR SO THAT BUYING RATE AMONG COMMERCIAL BANKS HAS DROPPED FROM KD 1 - \$.2935 TO KD 1 - \$.29225. AT SAME TIME POUND STERLING HAS STRENGTHENED FROM KD 1 - .73675 TO KD 1 - .74400. GOLD AND CONTINENTAL CURRENCIES HAVE ALSO APPRECIATED. BECAUSE OF FINANCIAL PENALTIES ASSOCIATED WITH MOVING INTO CONTINENTAL CURRENCIES LOCAL MOVEMENT IS FROM DOLLARS MAINLY TO STERLING AND GOLD.

3. ONE LOCAL BANKER ESTIMATES THAT \$40 MILLION HAS BEEN SHIFTED IN LAST FEW DAYS AND HE SAID PRESSURE IS BUILDING TO MOVE MORE MONEY FROM DOLLARS TO OTHER ASSETS. FEAR IS THAT MOMENTUM WILL DEVELOP AND LARGER AMOUNTS WILL BE SHIFTED, ALTHOUGH FLOATING RATES SHOULD HELP BRING SYSTEM BACK INTO SOME SORT OF EQUILIBRIUM. THERE ALSO LOCAL FEARS
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THAT DOLLAR WILL BE DEVALUED AGAIN.

4. COMMENT: SITUATION HERE IS REMINISCENT OF SITUATION WHICH EXISTED JUST PRIOR TO RECENT DOLLAR DEVALUATION (SEE KUWAIT 396, NOTAL) . BELIEVE LARGER SHIFTS OF KUWAITI MANAGED ASSETS FROM DOLLARS TO STERLING, GOLD AND CONTINENTAL CURRENCIES

CAN BE EXPECTED IN SHORT RUN. TO EXTENT THIS
WEAKENS DOLLAR AND INCREASES PRESSURE ON USG,
BELIEVE HIGH LEVEL STATEMENT ASSURING PUBLIC THAT
DOLLAR WILL NOT BE DEVALUED WOULD BE MOST BENEFICIAL
IN CALMING LOCAL FEARS. MOST IMPORTANT REQUIREMENT
HERE IS THAT USG SHOW IT CONFIDENTLY IN CONTROL OF
DAY- TO- DAY AFFAIRS OF STATE AND OF DOMESTIC AFFAIRS.
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